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RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDO/DEPT OF COMMERCE WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC

UNCLAS SECTION 01 OF 02 ABUJA 000549

SENSITIVE  
SIPDIS

DEPT PASS TO USTR-AGAMA  
DEPT PASS TO USAID/AFR FOR ATWOOD AND HUMBER  
USAID/EGAT FOR EISENDRATH  
BAGHDAD FOR DUNDAS MCCULLOUGH  
TREASURY FOR PETERS, IERONIMO AND HALL  
DOC FOR 3317/ITA/OA/KBURRESS AND 3130/USFC/OIO/ANESA/CREED  
DOE FOR PERSON, HAYLOCK AND SPERL

E.O. 12598: N/A  
TAGS: [EPET](#) [ECON](#) [EINV](#) [ENRG](#) [EAID](#) [PGOV](#) [NI](#)  
SUBJECT: NIGERIA: KADUNA REFINERY - NOT READY FOR PRIMETIME

SENSITIVE BUT UNCLASSIFIED - PLEASE HANDLE ACCORDINGLY

1. (SBU) Summary. On March 5, 2009 Engineer Olayinka Agora, the Managing Director of the Kaduna Refinery and Petrochemical Company (KRPC), described the ongoing saga of poor planning and neglected maintenance that has reduced the effectiveness and usefulness of the refinery. He underscored that shoddy turnaround maintenance (TAM) has resulted in the refinery operating far below installed capacity, and that excessive government interference in the refinery's operations, and vandalism of the Escravos to Kaduna pipeline has left the refinery dormant. For the past two years, the refinery has not received crude oil via the pipeline. Agora noted that the current TAM, which began in November 2008, should be completed by the end of March 2009. The government placing economic resources in areas for political reasons and not focusing on minimizing costs and maximizing productivity wastes valuable GON resources. End Summary.

Kaduna Refinery Primer

2. (SBU) EconDeputy and EconSpecialist met with officials of the Kaduna refinery on March 5 to discuss refinery operations. The Kaduna refinery was commissioned in 1980, during former President Shahu Shagari's tenure. Nigeria has four refineries - two others in Port Harcourt and one in Warri, which are all located in the Niger Delta. The Kaduna refinery has a capacity of over 110,000 barrels per day and processes crude oil into refined petroleum products and manufactures linear allcyl benzene tins and drums for domestic consumption and export. Officials told us that the Kaduna refinery is the only refinery which supplies petroleum products to the nineteen northern Nigerian states, when it is operating.

Politicization at the Kaduna Refinery

3. (SBU) Managing Director Agora stressed that the past management of the Nigerian National Petroleum Company (NNPC) has contributed to the destruction of the refinery due to weak management and incompetence in awarding contracts. He stated that problems started in 1985 during the Babangida administration, when the need to conduct TAMs every two years was neglected. The Babangida administration used the refinery for political patronage purposes by hiring unqualified staff and signing contracts with political cronies unqualified to deliver products and services. The last TAM took place in 1998, during General Sani Abacha's regime, in which a \$215 million turn-around-maintenance contract was awarded to the French company TotalFinaElf to rehabilitate the refinery.

14. (SBU) EconDeputy asked about labor conditions at the refinery and Agora lamented that the refinery has difficulty paying its 1,800 current employees, due to low operational utilization of the refinery. He pointed out that the majority of the trained staff had retired thereby leaving the refinery with few experienced staff. Agora hoped that with the new leadership changes at NNPC it would give him greater autonomy to "rightsize his staff to create better value and efficiency."

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Privatization

15. (SBU) For the past several years, media reports have speculated on the sale of the Kaduna refinery and other refineries in the country. In early 2007 the Obasanjo administration began the process of privatizing the refineries. In May 2007 the Yar'Adua administration reversed course and canceled the planned privatizations. Regarding privatization of the Kaduna refinery, the management stressed that the refinery was not profitable and it was established solely for the political and strategic purpose of locating a refinery in the north. According to Agora, northern elites did not want to rely solely on the refineries in the south and saw the refinery as a prized cash cow for patronage purposes. He commented that two factors make the Kaduna refinery unprofitable - considerable cost associated with transporting crude oil such a long-distance and repeated interruptions of crude oil supplies due to vandalization of the feeder pipeline from the Niger Delta. If the refinery was sold to a private entity it would be chopped up, hauled to the Niger delta and rebuilt there, where a refinery would be more cost-effective, commented Agora. In addition, he was not

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confident that the privatization process would be transparent considering the past examples of the Nigerian telecommunications, the National Fertilizer Company and the Ajaokuta Steel Company.

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Comment

16. (SBU) The history of the Kaduna refinery reflects poorly on past governance. Ethnic divisions in Nigeria pose a major challenge in the location of economic resources because often these economic resources are not located in the most optimal areas for minimizing costs and maximizing productivity. The back and forth among the political leadership on whether the refinery should be privatized diverts attention to the main problem - access to a consistent supply of crude oil from the Niger Delta at a facility located so far from the source of the oil and in a country that lacks basic infrastructure to ensure alternative methods of transportation. The Kaduna refinery is truly another "white elephant" sitting on the Nigerian landscape - a project initiated and maintained without regard to economic and business principles and which is wholly unsustainable without GON support.

17. (U) This cable was coordinated with ConGen Lagos.

SANDERS